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SIG-IEP Meeting on Pipeline Sanctions

Talking Points for DCI

The SNIE, which is almost completed, ties directly into the policy issues being raised here by bringing together the major pieces of the overall picture of Western economic relations with the USSR, relations that Moscow has used to expand its military power.

The SNIE finds that:

- o The USSR will depend on exports of gas to Western Europe to avert a decline in hard currency earnings in the 1980s and possibly to increase these earnings in the 1990s.
- o That Soviet access to Western oil equipment and technology is important to the Soviets if they are to avoid a serious decline in oil exports, which currently bring in about one half of total Soviet hard currency earnings.
- o As many other studies have already shown, that imports of military-related goods and technology are important to Soviet military programs.

The SNIE also assesses the impact on the USSR of possible Western economic actions.

- o Concerning the Yamal pipeline, the horse has already left the barn, and nothing we can do will have much affect on the Soviets.

But there are actions we can take and the Europeans might accept that would have a significant effect. Namely:

- o Tightening COCOM controls.

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- o Developing additional sources of natural gas to head off new Soviet-West European gas projects.
- o Controlling at least selectively exports of oil equipment.
- o And eliminating interest subsidies on loans.

We believe that the order of magnitude of these effects would be:

- o Less than one half billion dollars a year if interest subsidies on credits were eliminated.
- o As much as \$10 billion a year by the late 1980s if all oil equipment and technology were denied, but the impact would diminish over time and it would be substantially smaller if our Allies did not cooperate or with a selective embargo.
- o Up to \$10 billion a year in the 1990s and beyond if no follow-on gas projects were built--a very substantial impact indeed.
- o We cannot quantify the impact of tighter COCOM controls, but they could be expected to retard the modernization of Soviet weapon systems, and consequently the Western countries might be able to save billions of dollars.

I believe that these assessments can be used to start building some sort of consensus with the Europeans on East-West economic policy in a strategic context.

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THE DIRECTOR OF CENTRAL INTELLIGENCE

WASHINGTON, D.C. 20505

National Intelligence Council

DDI #7447-82
15 September 1982

MEMORANDUM FOR: Director of Central Intelligence

FROM: Maurice C. Ernst
National Intelligence Officer for Economics

SUBJECT: 16 September SIG-IEP Meeting on Pipeline Issues

1. The purpose of the SIG-IEP meeting is to develop agreed policy guidance in preparation for Secretary Shultz' planned meetings with his counterparts in the major European countries in the periphery of the UN General Assembly session at the end of September. These planned discussions would, it is hoped, constitute a first step in a process of developing a dialogue with the Europeans on the strategic context of East-West European economic relations. Although no formal proposals will be presented during these initial discussions, the US would presumably make tentative proposals along the following lines:

- (1) Ask the Europeans to impose export controls on certain types of oil and gas equipment and technology as a quid pro quo for removing the extraterritorial and retroactive elements in the US controls--that is, returning to the December level of controls. The new European controls would be designed to have an impact on the Soviet economy at least equivalent to that of the controls the US would remove. The justification for these controls would be the political situation in Poland; they would presumably be lifted if and when the Polish situation improves substantially.
- (2) Restrict export credits to the USSR, tighten COCOM controls, and work toward developing new sources of energy as alternatives to additional Soviet gas deals. These initiatives would be examined as part of a broad Allied strategic approach to East-West economic relations.

2. The attached State Department discussion paper in our view does an excellent job presenting background for and a conceptual approach to these new initiatives. It was drawn partly from several, more detailed papers, which were discussed at the 13 September IG-IEP meeting, and are also attached. I have the following comments on those papers:

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- Credits: The earlier Buckley missions found the going slow. We may go further this time, but I doubt the Europeans will accept any firm formula for credit restrictions.
- COCOM: The Europeans agree with us in principle and negotiations have been going on for months.
- Development of alternative energy sources: It is important not to expect the Europeans to make long-term commitments at this time. It will be a major achievement if the US can get some of the key countries together to discuss these issues in an Alliance context.
- Quid Pro Quo: There are two serious problems in developing a quid pro quo for dropping the extraterritorial and retroactive US sanctions. It is not at all certain that the Europeans will agree to such a trade-off, although we should try. And for domestic US policy reasons, there is concern to achieve equivalence not only with regard to impact on the Soviet Union, but also to the burden on the US vis-a-vis Western Europe. The Department of Commerce expressed this view strongly at the IG meeting. The Intelligence Community view is that the US sanctions on gas equipment will not prevent completion of the pipeline, and will not cause the USSR much damage. This suggests that we do not need very large concessions from the Europeans to be able to claim equivalent impact.

3. Attached also are Comments on the State discussion paper from STR and Defense.

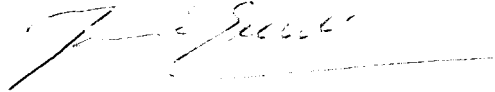
- STR makes some good points (e.g., the need to consider Japan), but is mostly quibbling.
- The DOD comments constitute a wish list of US objectives, not a realistic basis for negotiating with the Europeans. I know of no one among Intelligence Community experts who believes the West Europeans can or would commit themselves to any such list. What we are saying in the SNIE is that the time is ripe to begin building a consensus, but if we insist on hard conditions at the start we will get nowhere. There is a basis of support in Europe for all our major proposals, but making use of it will take time, and diplomacy.

4. Having read all the policy papers and talked at some length with Jim Buckley and other officials over a period of time, I am convinced that the new SNIE is right on the mark--that is, it addresses in an integrated fashion all the main questions that are of concern to the relevant policy officials and on which the Intelligence Community has a contribution to

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make. The SNIE is also very timely, and the sooner it can be made available, the more useful it will be.

A handwritten signature in dark ink, appearing to read 'M. C. Ernst', with a long horizontal flourish extending to the right.

Maurice C. Ernst

Attachments,
As stated

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